



Enriching Lives

KIRLOSKAR OIL ENGINES LIMITED

A Kirloskar Group Company

ANNUAL REPORT 2017-2018



RISING TO A NEW WORLD

We are witnessing the dawn of a new world, a world that is driven, connected and evolved by rapidly advancing technologies. That's why, we at Kirloskar, have already taken this crucial step towards the future by upgrading to smart factories. From equipping our products with state-of-the-art predictive and real-time monitoring systems to automating an inter-connected manufacturing process, we are gearing up to take customer experience to a whole new level. We are rising to a smart, efficient and connected world with customer satisfaction at the core.

Your company is harnessing real-time responsive technology by

- Installing Kirloskar Remote Monitoring units (KRM) in the DG sets. These are connected to a Genset controller that enables proactive monitoring of all genset operating parameters, warning & alarms on real time basis. Alerts are generated to service dealers & service calls generated in system automatically.
- Digitizing of service data with the "Electronic Field Service Report" (e-FSR) thereby enabling faster and better service response and real time updates to customers.
- Digitizing the rural distribution network for efficient and effective delivery through Agrifast
- Providing multiple farming solutions to the small and marginal farmers with the innovative Mega T and allied farm equipment.



**BOARD OF DIRECTORS**

Atul C. Kirloskar	Executive Chairman
Gautam A. Kulkarni	Executive Vice-Chairman (upto 14 September, 2017)
Nihal G. Kulkarni	Managing Director
Rajendra R. Deshpande	Joint Managing Director
Rahul C. Kirloskar	
Pratap G. Pawar	
R. Srinivasan	
M. Lakshminarayan	
Mahesh R. Chhabria	
Gauri Kirloskar	
Pradeep R. Rathi	
Vinesh Kumar Jairath	
Satish Jamdar	

CHIEF FINANCIAL OFFICER

T. Vinodkumar

COMPANY SECRETARY

Smita Raichurkar

AUDITORS

M/s. P. G. Bhagwat, Chartered Accountants

BANKERS

State Bank of India
Bank of Maharashtra
HDFC Bank Limited
ICICI Bank Limited
The HSBC Limited

REGISTRAR & SHARE TRANSFER AGENT

Link Intime India Private Limited
Block No. 202, 2nd Floor,
'Akshay' Complex, Near Ganesh Temple,
Off Dhole Patil Road, Pune- 411 001
Ph. No. 020 - 26161629 / 26160084

REGISTERED OFFICE

Laxmanrao Kirloskar Road, Khadki, Pune - 411 003
Ph. No. 020 - 25810341
www.koel.co.in

LOCATION OF FACTORIES

Pune, Nasik, Kagal and Rajkot

CIN: L29120PN2009PLC133351

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FINANCIALS AT A GLANCE

₹ in Crs.

Sr No	Particulars	Ind AS			Indian GAAP					
		2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10
1	Gross Sales	2,860*	2,818	2,587	2,641	2,475	2,521	2,446	2,537	2,346
2	Net Sales	2,804	2,614	2,406	2,473	2,287	2,320	2,276	2,364	2,219
3	Profit Before Tax	222	252	205	205	243	271	281	244	263
4	Profit After Tax	150	174	165	143	178	199	192	174	164
5	Dividend (%)	250	250	250	250	250	250	200	200	200
6	Dividend per share (Rs)	5	5	5	5	5	5	4	4	4
7	Dividend Amount	72	72	72	72	72	72	58	58	58
8	Earning Per Share (Rs)	10	12	11	10	12	14	13	12	11
9	Book Value Per Share (Rs)	113	112	100	93	88	80	71	61	47
10	Share Capital	29	29	29	29	29	29	29	29	29
11	Reserves and Surplus	1,608	1,588	1,415	1,313	1,238	1,125	1,004	860	651
12	Shareholders' Funds	1,637	1,617	1,444	1,341	1,267	1,154	1,033	889	680
13	Loan Funds	17	12	7	-	-	-	169	249	270
14	Total Capital Employed	1,654	1,629	1,451	1,341	1,267	1,154	1,202	1,138	950
15	Net Block	422	440	477	514	543	591	576	591	563

* Excise duty was applicable till 30 June 2017.

Green Initiative - Go Paperless!!!

Dear Shareholder(s),

The Ministry of Corporate Affairs and Securities and Exchange Board of India (SEBI) has permitted the Companies to serve the documents viz. Annual Reports, Notice of general meetings / postal ballot, any other shareholders' communication etc. to the members through the electronic mode. Your Company, is also dedicated in preserving and protecting the environment and has been continuously seeking opportunities to reduce and conserve resources and minimize waste. To participate in this green initiative, you are requested to

- Register your email addresses to ensure prompt receipt of communication and avoid any loss during postal transit
- Convert your shares held in physical mode into dematerialized mode to ensure safe and speedy transaction in securities. The requests for effecting transfer of securities (except in case of transmission or transposition of securities) shall not be processed unless the securities are held in the dematerialized form with a depository after 5 December 2018 as per SEBI Notification dated 8 June 2018.
- Register your NECS facility (National Electronic Clearing System) for crediting your Dividend directly to your Bank Account.

Note:

- In case of holding shares in physical mode contact the Company or Registrar and Share Transfer Agent of the Company viz. Link Intime India Private Limited.
- In case of holding shares in dematerialized mode contact your Depository Participant.
- For more details visit Investors Relations Section on Company's website: www.koel.co.in

**REPORT OF THE DIRECTORS**

TO THE MEMBERS
OF KIRLOSKAR OIL ENGINES LIMITED

The Directors are pleased to present the 9th Annual Report together with the Audited Statement of Accounts for the year ended 31 March 2018.

FINANCIAL RESULTS (STANDALONE)

(₹ in Crores)

Particulars	2017-18	2016-17
Total Income	2,956.55	2,958.22
Profit before exceptional items and tax	222.48	252.30
Exceptional Items	-	-
Profit before tax	222.48	252.30
Tax Expense (Current & Deferred Tax)	72.37	78.68
Net Profit for the Period	150.11	173.62
Other Comprehensive Income	1.06	(0.58)
Total Comprehensive Income for the year, net of tax	151.17	173.04
Profit Brought Forward	979.20	806.15
Profit Available for Appropriation	1,130.37	979.20
Transfer to General Reserve	-	-
Dividend and dividend distribution tax	130.54	-
Balance of the Profit carried forward	999.83	979.20

COMPANY'S FINANCIAL PERFORMANCE

Despite an extremely challenging macroeconomic environment, your Company posted its highest net sales of ₹ 2804 crores as compared to the previous fiscal of ₹ 2614 crores. An increase of 7%. Profit from operations (before exceptional items) was ₹ 222 crores as against ₹ 252 crores in the previous year. The Industrial Promotion Subsidy (IPS) which the Company was availing of, for operations in Kagal, came to an end on 31 March 2017. In the previous year, the amount availed was approximately ₹ 36 crores. The Profit After Tax was ₹ 150 crores as against ₹ 174 crores in the previous year.

DIVIDEND

For the year under review, the Directors have declared an Interim Dividend of 125% (₹ 2.50/- per share) and also recommended a dividend of 125% (₹ 2.50/- per share) for the year (PY Final Dividend 250%, ₹ 5 per share). Total dividend payout for the year will be ₹ 72.30 crores, including payment of ₹ 14.79 crores, as dividend distribution tax.

ACQUISITION

During the year under review, the Company entered into a Share Purchase Agreement for acquisition of 100% equity shares of La-Gajjar Machineries Private Limited (LGM), a leading submersible and mono block pump manufacturer based in Ahmedabad, Gujarat, India with established brands “Varuna” and “Raindrop” and a pan-India distribution setup. This is a strategic acquisition made in order to consolidate the Company’s position in the diesel and electric pump segment. The Company is confident that synergies will play out in the future and the Company will attain leadership position in the complete pump segment.

As part of the Share Purchase Agreement, signed on 1 August 2017, the Company acquired 76% of equity shares of LGM, being the first tranche, with a clear understanding that the balance 24% will be acquired by the Company over a 5 year period. LGM has become a subsidiary of the Company with effect from 1 August 2017.

In the first eight months of operation, the focus has been to establish processes and policies in line with the Company, set direction and integrate operations wherever needed to extract synergies going forward.

AMENDMENT TO THE MAIN OBJECT CLAUSE OF MEMORANDUM OF ASSOCIATION

During the year under review, the Company altered the Main Object Clause of its Memorandum of Association to include ‘Financial Services’ business on its own or through a subsidiary, established for the purpose, with approval of members of the Company by way of postal ballot. The Company has promoted and incorporated a wholly owned subsidiary, namely, Kirloskar Capital Limited (KCL) on 20 April 2018 for the purpose of commencement of financial service business.

SUBSIDIARY COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

As on 31 March 2018, the Company had the following two subsidiaries:

1. KOEL Americas Corp., USA (KOEL Americas)
2. La-Gajjar Machineries Private Limited (LGM)

The additional sales revenue from KOEL Americas Corp. USA (wholly owned subsidiary) for the fiscal ended 31 March 2018, was \$ 37,30,142 (₹ 24.06 crores). Profit from operations before Tax was \$ 1,51,319 (₹ 0.98 crores). The Profit after Tax was \$ 1,12,222 (₹ 0.73 crores). The additional sales revenue from La-Gajjar Machineries Private Limited (subsidiary) for the period from 1 August 2017 to 31 March 2018, was ₹ 214 crores. Loss from operations before Tax was ₹ 11 crores. The Net Loss was ₹ 8 crores.

The consolidated financial statements of the Company and its two subsidiaries, prepared in accordance with IND-AS 110, issued by Institute of Chartered Accountants of India, forms part of this Annual Report. A statement containing the salient features of the financial statements of the subsidiary companies is attached to the Financial Statements of the Company in Form AOC-1.

Pursuant to the provisions of Section 136 of the Companies Act, 2013, the financial statements along with relevant documents of the Company and its subsidiaries are available on the Company’s website.

The annual accounts of the subsidiaries and related detailed information will be kept for inspection by any shareholders at the Registered Office of the Company and will also be made available to the shareholders on demand, at any point of time.

DIRECTORS

a) Changes in Composition of the Board of Directors:

- Mr. Mahesh R. Chhabria was appointed as Managing Director of Kirloskar Industries Limited, a Promoter Group Company with effect from 4 July 2017. Consequent to this, he ceased to be Independent Director of the Company but continued to be Non-Independent Director of the Company with effect from 4 July 2017.



- On account of ill health, Mr. Gautam A. Kulkarni, Executive Vice Chairman of the Company, tendered his resignation effective 14 September 2017. It was unfortunate that on 20 September 2017, he succumbed to his illness. The Board in its meeting dated 13 October 2017 placed on record their appreciation for the guidance, support and contribution provided by him during his tenure as Director of the Company.
- The Board of Directors of the Company in its meeting held on 19 January 2018, re-appointed Mr. Rajendra R. Deshpande as the Whole Time Director with designation as Joint Managing Director, for a term of 2 years with effect from 29 April 2018. A proposal for his re-appointment as the Joint Managing Director and remuneration payable to him is being placed before the Members of the Company for their approval at the ensuing Annual General Meeting.
- Mr. Mahesh R. Chhabria retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

The brief resumes and other details relating to the Directors who are proposed to be appointed / re-appointed, as required to be disclosed under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, forms part of the Notice of Annual General Meeting.

b) Changes in Key Managerial Personnel:

Mr. Rajendra R. Deshpande, Joint Managing Director, was re-appointed as Key Managerial Personnel of the Company, with effect from 29 April 2018.

c) Declarations from the Independent Directors:

The Company has received declarations from all the Independent Directors of the Company confirming that they meet the criteria of independence as prescribed under Section 149 (6) of the Companies Act, 2013, including amendment thereof and Regulation 16(1)(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

d) Board Evaluation:

In continuation of the process laid down in the previous year, members of the Board carried out a formal review for evaluating the performance and effectiveness of the Board, Committees of the Board and of the individual directors including the Chairman of the Board.

The performance of the Board was evaluated on the basis of criteria such as the board composition and structure, effectiveness of Board processes, participation in organization strategy including Long Range Plan and Annual Operating Plan, inorganic growth opportunity evaluation, Enterprise Risk Management etc.

Using appropriate criteria the performance of the various Committees was separately evaluated by the Board.

In a separate meeting of Independent Directors, performance of non-independent directors, performance of the Board as a whole and performance of the Chairman, taking into account the views of executive directors and non-executive directors, were evaluated.

A separate exercise was carried out to evaluate the performance of individual Directors including the Chairman of the Board, who were evaluated on parameters such as achievement against key performance objectives, attendance at meetings, time devoted for the Company, contribution in the Board process etc.

The Chairman of the Board and the Chairman of Nomination and Remuneration Committee had one-on-one meetings with the Directors. These meetings were intended to obtain Directors' inputs on effectiveness of the Board/Committee processes.

e) Nomination and Remuneration Policy:

The Board of Directors, on the recommendation of the Nomination & Remuneration Committee, has adopted a policy that lays guidelines for selection and appointment of Directors, Key Managerial Personnel and Senior Management personnel together with their remuneration. The Nomination and Remuneration Policy is available on Company's website.

f) Number of meetings of the Board :

During period under review, eight (8) Board Meetings were held, the details of which forms part of Report on Corporate Governance.

g) Composition of Audit Committee :

The Composition of Audit Committee forms part of the Report on Corporate Governance.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

During the year under review, the Company has invested in equity shares of La-Gajjar Machineries Private Limited. The details of which are given in the Financial Statements. The Company has not granted any Loans and Guarantees covered under Section 186 of the Companies Act, 2013.

PARTICULARS OF CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES

All related party transactions that were entered into during the Financial Year 2017-18 were on an arm's length basis and were in the ordinary course of business. Hence, there are no transactions to be reported in Form AOC-2. None of the related party transactions entered into by the Company, were materially significant, warranting members' approval under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. All Related Party Transactions are routinely placed before the Audit Committee for approval after being duly certified by the Statutory Auditors.

The policy on Related Party Transactions as adopted by the Board is uploaded on the Company's website.

The disclosures as per IND-AS 24 for transactions with related parties are provided in the Financial Statements of the Company.

RISK MANAGEMENT FRAMEWORK

Risk management is a continuous process within the organization which works all across functions and businesses. The process facilitates identification, evaluation, mitigation and review of risks and opportunities both at business and enterprise level which may affect achievement of objectives.

The Internal Audit Department facilitates the risk management process by working with the businesses, functions and senior management to address major types of risks which are strategic, people, environmental, economic and operational in nature in a structured and focused manner.

Detailed mitigations are prepared post identification of risk, which are aligned to the business goals and enterprise vision, both short and long term. The business heads with the help of Internal Audit Department reviews the risks with respect to the likelihood and impact in a structured forum to ensure bottom up approach is followed in addition to a top down approach.

The enterprise risks and mitigation plans are reviewed by the Audit Committee and Board periodically.

INTERNAL FINANCIAL CONTROLS WITH REFERENCE TO THE FINANCIAL STATEMENTS

The Company's Internal Control Framework is Commensurate with the size and nature of its operations.

Details of internal financial control and its adequacy are included in the Management Discussion and Analysis Report, which forms part of this Report.

CORPORATE SOCIAL RESPONSIBILITY

The Company has always believed in working for the betterment and upliftment of society. Corporate Social Responsibility (CSR) has been practiced and engrained over the years in the Company. The focus areas under CSR have remained consistent over the years and include: Health, Education and Environment.



The Company strongly believes in 'Enriching Lives' of the people surrounding the communities in which it operates.

The Composition of CSR Committee of the Board and Report on CSR activities is annexed herewith as **Annexure A**.

VIGIL MECHANISM / WHISTLE BLOWER POLICY

The Company has a Vigil Mechanism / Whistle Blower Policy to deal with instances of fraud, unethical behavior, mismanagement etc. The Policy provides a mechanism for employees of the Company and other persons dealing with the Company to report to the Chairman of the Audit Committee any instance of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct. No person has been denied access to the Audit Committee in this regard. The Policy is uploaded on the Company's website.

EXTRACT OF ANNUAL RETURN

The details forming part of the extract of the Annual Return in form MGT 9 is annexed herewith as **Annexure B** to this report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE AND OUTGO

Information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo as required under section 134 (3)(m) of the Companies Act, 2013, read with the rules there under, are provided in **Annexure C** to this report.

PARTICULARS OF EMPLOYEES

Disclosures pertaining to remuneration and other details as required under Section 197(12) of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, are annexed in **Annexure D** of this report.

The particulars of employees pursuant to section 197(12) of the Companies Act, 2013 read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, form part of this report. In terms of Section 136 (1) of the Companies Act, 2013, the Directors' report is being sent to the shareholders without this Annexure. The Shareholders interested in obtaining a copy of this annexure may write to the Company Secretary at the Company's registered office.

POLICY ON PREVENTION OF SEXUAL HARASSMENT

The Company has in place a Policy for prevention of sexual harassment at workplace. This inter alia provides a mechanism for the resolution, settlement or prosecution of acts or instances of Sexual Harassment at work and ensures that all employees are treated with respect and dignity. There were no complaints filed / pending with the Company during the year.

GENERAL

During Financial Year 2017-18:

- a. There were no public deposits accepted by the Company pursuant to provisions of the Companies Act, 2013, including rules thereunder.
- b. There were no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and Company's operations in future.

- c. Neither the Managing Director nor the Whole-time Directors of the Company received any remuneration or commission from subsidiary.
- d. The Company is in compliance with applicable Secretarial Standards.

AUDITORS

a) Statutory Auditors

The members of the Company in its meeting held on 5 August 2016, re-appointed M/s. P. G. Bhagwat, Chartered Accountants, Pune, (Firm Registration Number 101118W) as Statutory Auditors of the Company for a second term of 5 consecutive years to hold office from Annual General Meeting (AGM) held on 5 August 2016 till the conclusion of the Annual General Meeting to be held in the year 2021, subject to the ratification by the members at every AGM.

Pursuant to the first proviso to Section 139 of the Companies Act, 2013, the appointment of the Statutory Auditors was required to be placed for ratification at every Annual General Meeting. The said proviso has been omitted by MCA vide its Notification dated 7 May 2018 with immediate effect.

The Company has received from them, the requisite certificate pursuant to Section 139 of the Companies Act, 2013 for Financial Year 2018-19.

There are no adverse remarks / qualifications of Statutory Auditors on financial statements for the year ended 31 March 2018.

b) Cost Auditors

The Company has appointed M/s. Parkhi Limaye & Co. as Cost Auditors of the Company for the Financial Year 2018-19 under section 148 of the Companies Act, 2013 and rules thereof.

c) Secretarial Audit Report

The Company had appointed Mr. M. J. Risbud, Practicing Company Secretary to conduct Secretarial Audit of the Company under section 204 of the Companies Act, 2013 and the rules thereof. The Secretarial Audit Report is annexed herewith as **Annexure E**.

There are no adverse remarks / qualifications of Secretarial Auditors in the Secretarial Audit Report for the year ended 31 March 2018.

MANAGEMENT DISCUSSION & ANALYSIS AND REPORT ON CORPORATE GOVERNANCE

The Management Discussion and Analysis and the Report on Corporate Governance as required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, forms part of this Annual report.

A Certificate from the Statutory Auditors of the Company regarding compliance with conditions of corporate governance as required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, also forms part of this Annual Report.

BUSINESS RESPONSIBILITY REPORT

Business Responsibility Report as required under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, forms part of this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134 of the Companies Act, 2013, the Directors, based on the representations received from the Operating Management, confirm that:

- a) In preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;